



The Pakistan Credit Rating Agency Limited

# **ADAMJEE LIFE ASSURANCE COMPANY LIMITED**

## **(ALAC)**

### **IFS RATING REPORT**

	<b>NEW [NOV-17]</b>	<b>PREVIOUS [APR-17]</b>
Insurer Financial Strength (IFS) Rating	A+	A+
Outlook	Stable	Stable

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**Profile & Ownership**

- Adamjee Life Assurance Company, a subsidiary of Adamjee Insurance (74%), started operations in 2009
- Adamjee Insurance is the second largest non-life insurance company in the country, rated 'AA+' by PACRA
- The other major shareholder is IVM Intersurer B.V. (26%), a company of Hollard (a leading Insurance Group of South Africa)

**Governance & Management**

- A seven member board; chaired by Mr. Umar Mansha  
New member Mr. Nashir Omer, representative of Hollard Brokers Market South Africa, joined board on Feb 3, 2016
- Adamjee Insurance is having majority representation on the board while two representatives are of Hollard/ IVM
- The majority of BoD has extensive experience in the insurance industry which augurs well for the overall governance and strategy formulation
- Chief Executive Officer, Mr. Fredrik de Beer, associated since inception and represents Hollard
- Mr. De Beer having experience of over three decades in various sectors including life and general insurance business

**Business Risk**

- Growth in premium 1H17 (22%) & 9M17 (17%); outpacing industry's growth
- Sustained market share 9M17 (8%) while adding ~1% market share each year since inception
- Premium mix dominated with unit-linked business (84%), followed by non-unitized (3%), Group funds (~4%) and Family Takaful (8%) at 9M 17
- Second year persistency improved to 85% in 1H17 and 78% in 9M17
- Investment income has observed decline of 30% at 1H17 and 89% dip in 9M17.
- Operating ratio increased to 100% (9M16: 96%, 1H16: 99%)

**Business Strategy**

- Sizeable growth targeted, to be driven by bancassurance; herein, in addition to parent bank-MCB, Faysal Bank, Dubai Islamic Bank and Waseela Microfinance.
- Operating ratio surged to 100% (CY16: 96%)
- Plans Initial Public Offering till end 2018
- Expansion in branch network on the back of agency model
- Eying growth in window Takaful operations

**Financial Risk**

- Adamjee Life has paid back major portion of capital contribution at end-Dec'16 which has boosted up equity of the company PKR 422 mln at end Dec 16 which further boosted to PKR 477 mln at end June 17 & PKR 489mln at end Sep 17.
- Investment book is deployed amongst government securities which is shrinking with time 21% (9M16: 62%), to Bank deposits 37% (9M16: 14%) & equities 42% (9M16: 22%).
- Investment yield of both statutory funds (-1%) and shareholders' funds (-5%) dropped its performance
- liquidity ratio remained constant at 1x, providing good risk absorption capacity

**RATING RATIONALE**

The rating reflects Adamjee Life's strengthening market position. This has been possible through a relatively aggressive volume growth that mainly relied on bancassurance. Herein, synergies with group bank (MCB) benefited the most. It has achieved better persistency in subsequent years renewal. The company achieved break-even and thereafter sustained surplus in CY16 but showed deficit in 9MCY17. The company's statutory funds are now self-subsistence; accumulated deficit of statutory fund is down significantly. Consequently, Adamjee Life has improved equity base. Start of window takaful operations has boded well for the company, adding significant volumes. Lately, the management has expanded its branch network and also has built a sales force around agency model as well to add to its growth momentum. Meanwhile, comfort is drawn from Adamjee Life's strong risk absorption capacity, represented by sufficient liquidity and overall quality of its investment portfolio.

**KEY RATING DRIVERS**

The continued self-subsistence of statutory funds, ability to improve its market position and strengthening of core profitability are integral for the rating. Moreover, prudent management of risk in wake of increasing business volumes and agency model remain important.

**INDUSTRY SNAPSHOT**

Life insurance sector has seen remarkable growth in recent years (CAGR 5years: 21%), wherein the private sector has seen relatively high growth. Private sector brought innovative life solution, mainly bancassurance – a sum of both saving plans and nominal life cover. Investment portfolios of life insurers are skewed towards government securities (primarily PIBs). Although Interest rate cuts brought revaluation gains, investment would be at lower returns.



## LIFE INSURANCE Financials [Summary]

### Adamjee Life Assurance Company Limited (ALAC)

BALANCE SHEET	30-Sep-17	30-Jun-17	31-Dec-16
<b>Investments</b>			
Liquid Investments	25,588	25,183	21,774
Investment in Associates	-	-	-
Other Investments	723	36	29
	26,311	25,219	21,803
Insurance Related Assets	196	198	248
Other Assets	591	1,293	1,544
<b>TOTAL ASSETS</b>	27,098	26,709	23,595
Equity	489	477	423
Statutory Fund	25,243	24,531	22,166
Insurance Related Liabilities	537	557	637
Other Liabilities	829	1,143	369
<b>TOTAL EQUITY &amp; LIABILITIES</b>	27,098	26,709	23,595
INCOME STATEMENT	30-Sep-17	30-Jun-17	31-Dec-16
<b>Net Premium</b>			
Gross Premium	8,703	5,651	11,302
Reinsurance Expense	(365)	(169)	(388)
Net Premium	8,338	5,482	10,913
Net Claims	(3,159)	(2,331)	(3,152)
Expenses	(1,906)	(1,210)	(2,239)
Investment Income	(125)	481	2,268
Excess of Income over Expenditure (EoI)	3,147	2,423	7,791
Miscellaneous (Expense)/ Income	-	-	-
Reserve for Policyholders' Liabilities	3,184	2,406	7,395
<b>SURPLUS BEFORE APPROPRIATIONS</b>	(36)	16	396
RATIO ANALYSIS	30-Sep-17	30-Jun-17	31-Dec-16
<b>Underwriting Results</b>			
Gross Premium Written (GPW) Growth Rate	17%	22%	24%
Premium Mix (Individual GPW/ Total GPW)	95%	97%	96%
Persistency Ratio (Individuals Funds)	78%	85%	80%
Loss Ratio (Net Claims as %age of net premium)	38%	43%	29%
Operating Ratio	100%	100%	96%
<b>Performance</b>			
Return on Equity - Shareholder	-0.9%	-0.4%	0.3%

**RATING SYMBOLS & DEFINITIONS:****INSURER FINANCIAL STRENGTH (IFS)  
RATING SCALE & DEFINITIONS**

Insurer Financial Strength (IFS) rating reflects forward-looking opinion on relative ability of the insurance company to meet policyholders and contractual obligations.

RATING SCALE	DEFINITION
<b>AAA</b>	<b>Exceptionally Strong.</b> Exceptionally strong capacity to meet policyholder and contract obligations. Risk factors are minimal and the impact of any adverse business and economic factors is expected to be extremely small.
<b>AA+</b> <b>AA</b> <b>AA-</b>	<b>Very Strong.</b> Very strong capacity to meet policyholder and contract obligations. Risk factors are modest, and the impact of any adverse business and economic factors is expected to be very small
<b>A+</b> <b>A</b> <b>A-</b>	<b>Strong.</b> Strong capacity to meet policyholder and contract obligations. Risk factors are moderate, and the impact of any adverse business and economic factors is expected to be small.
<b>BBB+</b> <b>BBB</b> <b>BBB-</b>	<b>Good.</b> Good capacity to meet policyholder and contract obligations. Although risk factors are somewhat high, and the impact of any adverse business and economic factors is expected to be manageable.
<b>BB+</b> <b>BB</b> <b>BB-</b>	<b>Moderately Weak.</b> Moderately weak with an uncertain capacity to meet policyholder and contract obligations. Though positive factors are present, overall risk factors are high, and the impact of any adverse business and economic factors is expected to be significant.
<b>B+</b> <b>B</b> <b>B-</b>	<b>Weak.</b> Weak capacity to meet policyholder and contract obligations. Risk factors are very high, and the impact of any adverse business and economic factors is expected to be very significant.
<b>CCC</b> <b>CC</b> <b>C</b>	<b>Very Weak.</b> Very weak with a very poor capacity to meet policyholder and contract obligations. 'CCC': Risk factors are extremely high, and the impact of any adverse business and economic factors is expected to be insurmountable. 'CC': Some form of insolvency or liquidity impairment appears probable. 'C': Insolvency or liquidity impairment appears imminent.
<b>D</b>	<b>Distressed</b> Extremely weak capacity with limited liquid assets to meet policyholders and contractual obligations, or subjected to some form of regulatory intervention and declared insolvent by the regulator.

**Outlook (Stable, Positive, Negative, Developing)**

Indicates the potential and direction of a rating over the intermediate term in response to trends in economic and/or fundamental business/financial conditions. It is not necessarily a precursor to a rating change. 'Stable' outlook means a rating is not likely to change. 'Positive' means it may be raised. 'Negative' means it may be lowered. Where the trends have conflicting elements, the outlook may be described as 'Developing'.

**Rating Watch**

Alerts to the possibility of a rating change subsequent to, or in anticipation of, a) some material identifiable event and/or b) deviation from expected trend. But it does not mean that a rating change is inevitable. A watch should be resolved within foreseeable future, but may continue if underlying circumstances are not settled. Rating Watch may accompany Outlook of the respective opinion.

**Suspension**

It is not possible to update an opinion due to lack of requisite information. Opinion should be resumed in foreseeable future, but may stay in abeyance for long. However, if this does not happen within six (6) months, the rating should be considered withdrawn.

**Withdrawn**

A rating is withdrawn on a) termination of rating mandate, b) cessation of underlying entity, or c) the rating remains suspended for six months.

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**Name of Issuer** | Adamjee Life Assurance Company Limited  
**Sector** | Life Insurance  
**Type of Relationship** | Solicited

**Purpose of the Rating** | Independent Risk Assessment

**Rating History**

Date	Rating	Outlook	Action
-	A+	Stabel	Maintain
12-Apr-17	A+	Stabel	Upgrade
12-Apr-16	A	Positive	Maintain
22-Apr-15	A	Positive	Maintain
12-May-14	A	Stable	Maintain
3-May-13	A	Stable	Maintain
11-Nov-11	A	Stable	Maintain

**Related Criteria and Research**

**Rating Methodology** | Insurer Financial Strength Rating  
**Sector Research** | Insurance | Life - Viewpoint | April-17

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[Rating Team Statement](#)

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PACRA reviews all the outstanding ratings on annual basis or as and when required by any stakeholder (including creditor) or upon the occurrence of such an event which requires to do so.

PACRA initiates immediate review of the outstanding rating(s) upon becoming aware of any information that may be reasonable be expected to result in any change (including downgrade) in the rating.

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